

m/027/007

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Subject/Comments:

Number of pages: _____
(including transmittal sheet)

SOLE SOURCE
TRACKING #9500208

January 12, 2000

TO: Douglas G. Richins, Director
Division of Purchasing

FROM: Mary Ann Wright, Associate Director, Mining
Division of Oil, Gas and Mining

RE: Sole Source Purchase Request to Contract with Western States Minerals Corporation (WSMC), Drum Mine, M/027/007, Millard County, Utah

APPROVED

D. Richins
DOUGLAS G. RICHINS
Director of Purchasing
State of Utah

11/25/2000

SOLE SOURCE REQUEST TO
CONTRACT WITH WESTERN
STATES
MINERALS
CORPORATION

The Drum Mine is a defunct gold mine located one hour west of Delta in Millard County, Utah. This mine operated for a number of years and extracted gold by heap leach methods using cyanide solutions. It was shut down by the Division of Water Quality in 1991 due to incompetent heap leach liners. The 253.5 acre site consists of: seven heap leach pads, numerous mine dumps, two large pits, a small adjacent satellite pit, a proposed topsoil borrow area, open mine portals leading to underground workings, a few minor remaining mine facilities and two process ponds. No reclamation has occurred at this site. It has remained in a continually deteriorating condition for nine years. This Division (OGM) holds two reclamation bonds for reclamation of this site. As you probably know, the mine company would normally perform reclamation work and upon approval of the completed work, the Division would release the reclamation bond.

This mine, however, has a complicated legal history which includes two mining companies as interspersed permittees (see attached map). By way of having you get a feeling for the degree of complication at this site, we have at times referred to this permit map as the 'Balkan' map because it mirrors the situation in the Balkan countries of interspersed areas of control by opposing parties. One of the two companies, Jumbo Mining Company (JMC), has gone bankrupt and we now hold a forfeited bond of \$162,000, plus the interest it is accruing, which at last count brought the total to about \$174,062. It took this Division about a year of being lined up with other unsecured creditors at the bankruptcy court to secure the JMC bond. The monies have been sitting in an interest bearing account while we have worked out how this site could get reclaimed in a sound environmental manner with limited funds. We have been in legal action trying to get reclamation going on the ground for over two years.

The remaining viable permittee, Western States Minerals Corporation (WSMC), is willing to enter into a legal settlement with this Division which would have WSMC completing reclamation for the entire site (both their part and JMC's portions). WSMC, as part of an earlier settlement with this Division, reworked the reclamation plan and draft bid specifications (for the entire site) and then bid out the work to get an idea of costs. The bid came back so high that we were back at

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the settlement table working out alternatives, because it was clear there would be little work done for the funds we are holding. Since WSMC has several mines in Nevada on which they have performed successful reclamation, it was suggested that we allow WSMC to complete the work on the entire site, especially since JMC is now out of the picture and the bankruptcy court has okayed the reclamation by giving us the JMC bond to do the work.

Thus, at this point, the Division believes it makes imminent sense to allow WSMC to perform reclamation of the entire site for the following reasons and are asking for your permission to contract with WSMC to reclaim the site:

- 1) From a logistical standpoint in terms of grading, cutting and filling, top soiling and revegetation at the site, it makes sense to have one contractor. The reclamation plan moves dirt among the different parts of the "balkanized" areas.
- 2) WSMC is required to reclaim their portions of this site, so it makes sense to pay for only one mobilization of construction equipment to this remote site in the Drum Mountains.
- 3) In order to perform some reclamation at one of the open pits, the Division needs to have some abandoned portals sealed by backfilling. We would contribute up to \$20,000 from a special fund for this work.
- 4) The BLM is the major landowner at this site and they and the Division of Water Quality are in agreement with this proposal.
- 5) WSMC is a gold mining firm conversant in the environmentally appropriate closure methods for leach pads and ponds and has to be there to fulfill their permit obligations anyway.

An agreement has been developed along these lines for signing by the BLM, DWQ, this Division and WSMC. We request your approval to proceed with this action plan. We anticipate that the closure and reclamation work could begin in late winter and be completed by summer. We believe that for the public trust in our Division's mission, WSMC is the appropriate entity to complete this work.

If you require further information, I can answer questions at 538-5306. You may also contact Mr. Alan Rabinoff at the state office of the BLM, at 539-4228; Mr. Don Ostler, DWQ Director, at 538-6047; our assistant Attorney General, Mr. Tom Mitchell, at 366-0398. Thank you for consideration of this request.

jb

Attachment: Map

cc: L. Braxton

D.W. Hedberg

C. Roberts

O:\DRUM\richins.drum.wpd

RECLAMATION COST ESTIMATE

INTRODUCTION

The reclamation responsibility for the Drum Mine as originally agreed to by the BLM and DOGM was to be jointly split between Western States Minerals Corporation (WSMC) and DOGM, which was to conduct its reclamation work under bond forfeiture by JUMBO. The following table lists the areas of reclamation responsibility originally allocated between the two entities. Figure #3 and Map #2 show the areas for which each operator was originally responsible.

Reclamation Responsibility	Area Description	SQ. FT.
WSMC	LG1	3.5
WSMC	LG2	17.9
WSMC	LG3	12.7
WSMC	HG6	5.0
WSMC	HG7	9.4
WSMC	W1	20.1
WSMC	W2	14.9
WSMC	W3	5.9
WSMC	W7	13.4
WSMC TOTAL		102.8
DOGM/JUMBO	HG1	11.5
DOGM/JUMBO	HG2	8.8
DOGM/JUMBO	HG3	8.1
DOGM/JUMBO	HG4&5	17.8
DOGM/JUMBO	W4	3.5
DOGM/JUMBO	SW EX PIT	19.5
DOGM/JUMBO	NR PIT	18.2
DOGM/JUMBO	POND/FACILITY	17.9
DOGM/JUMBO	OTHER	1.5
DOGM/JUMBO TOTAL		106.8
WSMC & DOGM	SOIL BORROW	43.9

SITE TOTAL 253.5

WSMC currently maintains a reclamation performance bond in the amount of \$264,080 and JUMBO maintained a reclamation performance bond in the amount of \$143,000 for the Drum Mine and a separate reclamation performance bond in the amount of \$19,000 for the Alto Pit. The amount of these bonds was based on prior estimated costs



